

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 MC-02 ACDA-05 SSO-00 NSCE-00 INRE-00

USIE-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03 INR-07

NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04

SIL-01 OMB-01 DODE-00 PM-04 H-02 L-03 NSC-05 PA-01

PRS-01 SS-15 JUSE-00 /087 W
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O 122212Z MAR 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 9120

C O N F I D E N T I A L OTTAWA 1041

E.O. 11652: GDS

TAGS: MILI, MARR, EAIR, NATO, CA

SUBJ: LOCKHEED LRPA

SUMMARY: KEY GOC OFFICIAL PITFIELD OUTLINED HIS CONCERN THAT FAILURE TO SOLVE FRONT-END FINANCING PROBLEM COULD ADVERSELY AFFECT NOT ONLY LOCKHEED CONTRACT BUT CANADIAN CABINET ADHERENCE TO RECENTLY-ACCEPTED MORE ACTIVE DEFENSE POLICY. HE SUGGESTED AND WE HAVE SINCE ARRANGED MEETING WITH GOC AND USG OFFICIALS TO DISCUSS POSSIBILITY LOCKHEED MAY BE PERMITTED TO SEEK LOAN THROUGH CANADIAN BANKS. END SUMMARY.

1. BULK OF MY TWO-HOUR-LONG INITIAL CALL ON PRIVY COUNCIL CLERK AND CABINET SECRETARY MICHAEL PITFIELD MAR 11 DEVOTED TO LOCKHEED LRPA MATTERS. PITFIELD REVIEWED RECENT HISTROY OF HIS ROLE AS CHAIRMAN OF COMMITTEE REVIEWING CANADA'S DEFENSE STRUCTURE WHICH, DESPITE GOC'S FINANCIAL STRINGENCY AND RELUCTANCE OF MANY MINISTERS, HAD SUCCEEDED IN SECURING CABINET APPROVAL FOR THE PURCHASE OF THE 18 LOCKHEED LRPA'S, EVENTUAL FIGHER AIRCRAFT, TANK AND SHIP ACQUISITIONS AND THE FORMULA FOR SUCCESSIVE REAL-TERM INCREASES IN THE DEFENSE BUDGET. HE EXPRESSED HIS CONCERN THAT
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THIS SUCCESSFUL OUTCOME TO THE DEFENSE REVIEW (FOR

WHICH HE ATTRIBUTED CONSIDERABLE CREDIT TO SECRETARY SCHLESINGER'S TIMELY AND PERSUASIVE INTERVENTION) WOULD BE ENDANGERED IF THE FIRST ELEMENT OF THE PACKAGE, THE LRPA PURCHASE, SHOULD COME UNSTUCK.

2. PITFIELD MADE IT CLEAR THAT THE KEY FACTOR AT THE MOMENT IS THE FRONT-END FINANCING. HE NOTED THAT THE GOC HAS SET FOR ITSELF AS PART OF THE ANTI-INFLATION PROGRAM A FINANCIAL FRAMEWORK WHICH CANNOT BE EXCEEDED WITHOUT PUTTING THE POLITICALLY CRUCIAL ANTI-INFLATION PROGRAM IN JEOPARDY. HE WAS CERTAIN THAT NO PROPOSAL WHICH EITHER DIRECTLY OR INDIRECTLY WOULD REQUIRE A BREACHING OF THAT FRAMEWORK COULD ACHIEVE CABINET APPROVAL, PARTICULARLY NOT FOR A DEFENSE ITEM GIVEN THE RELUCTANCE WITH WHICH MANY OF THE MINISTERS HAD ACQUIESCED IN THE DEFENSE REVIEW DECISIONS. IN THIS CONTEXT HE STRESSED THAT IT WOULD BE A SEVERE MISTAKE TO ASSUME THAT THE CANADIAN CABINET CAN BE FORCED TO BOW TO THE WILL OF THE PRIME MINISTER; CABINET DECISIONS ARE AND MUST BE GENUINELY COLLEGIAL. PITFIELD ALSO RULED OUT THE POSSIBILITY OF UTILIZING A CROWN CORPORATION (SUCH AS AIR CANADA) ACTING ON GOC BEHALF TO GUARANTEE A LOAN FROM THE FRONT-END FINANCING. HE MAINTAINED THAT SUCH A STRATAGEM WOULD CAUSE AN EVEN GREATER HOWL IN PARLIAMENT AND PLACE THE ANTI-INFLATION PROGRAM IN EVEN GREATER RISK THAN A REQUEST FOR A SUPPLEMENTAL APPROPRIATION.

3. PITFIELD CONCLUDED THAT AMONG THE VARIOUS OPTIONS THAT CAN BE CONSIDERED THE ONLY ONE THAT APPEARS POLITICALLY AND OTHERWISE FEASIBLE IS FOR LOCKHEED TO SECURE A LOAN FROM THE CANADIAN BANKING SYSTEM. HE SAID THAT THE CANADIAN BANKERS ARE LEERY OF PROCEEDING DOWN THIS ROUTE BECAUSE OF THEIR UNDERSTANDING THAT LOCKHEED'S ASSETS WOULD NOT PROVIDE THEM SUFFICIENT SECURITY FOR A LOAN SINCE THEY WOULD HAVE TO TAKE THEIR PLACE IN LINE BEHIND SOME 16 AMERICAN BANKS HOLDING LOCKHEED PAPER. MOREOVER, GOC HAD BEEN INFORMED BY LOCKHEED AND ITS EMBASSY IN WASHINGTON THAT US LAW AUTHORIZING LOCKHEED EMERGENCY GUARANTEES PROHIBITS LOCKHEED FROM ASSUMING FURTHER DEBT.

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4. AFTER CONTACT WITH DEPUTY MINISTER FOR NATIONAL DEFENSE C. R. ("BUZZ") NIXON, WHOM PITFIELD DESCRIBED AS THE KEY OFFICIAL IN THE GOC ON THIS MATTER, IT HAS BEEN ARRANGED THROUGH CANADIAN AMBASSADOR WARREN FOR TREASURY GENERAL COUNSEL RICHARD ALBRECHT TO COME TO OTTAWA MARCH 13 TO ADDRESS THREE ISSUES: A) UNDER WHAT CONDITIONS THE LOCKHEED EMERGENCY LOAN GUARANTEES BOARD MIGHT PERMIT

LOCKHEED TO BORROW UNDER CANADIAN GUARANTEE; B) UNDER
WHAT TERMS AND CONDITIONS US BANKS HOLDING LOCKHEED
PAPER MIGHT AGREE TO WAIVE CLAIM ON WORK IN PROGRESS
UNDER THE CANADIAN CONTRACT, AND C) RELATIONSHIP OF EVENTUAL
GOC AND USG GUARANTEE.
ENDERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY PROCUREMENT, MILITARY AIRCRAFT, MILITARY POLICIES, BANK LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: SmithRJ
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976OTTAWA01041
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760094-0880
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760366/aaaacgkm.tel
Line Count: 121
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: SmithRJ
Review Comment: n/a
Review Content Flags:
Review Date: 12 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 APR 2004 by CunninFX>; APPROVED <17 AUG 2004 by SmithRJ>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: LOCKHEED LRPA SUMMARY: KEY GOC OFFICIAL PITFIELD OUTLINED HIS CONCERN THAT
TAGS: MILI, MARR, EAIR, CA, US, NATO, LOCKHEED
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006